

Audit of Estimating System Internal Controls

January 2002

Reference Number: 2002-1C-047

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 22, 2002

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Audit of Estimating System Internal Controls
(Audit #200210002.018)

The Defense Contract Audit Agency (DCAA) has examined the contractor's Civil Group's estimating system as of August 28, 2001. The objective was to ensure that the Civil Group's system of estimating controls is adequate to provide reasonable assurance that estimated costs are compliant with applicable laws and regulations and subject to applicable financial control systems. The DCAA also evaluated the contractor's Civil Group's compliance with the system's internal control requirements.

The DCAA opined that the contractor's estimating system and related internal control policies and procedures of the Civil Group are inadequate. The examination disclosed significant deficiencies in the estimating system that could result in overstated and unsupported direct labor, indirect, and other direct costs. In addition, the DCAA stated that these deficiencies could adversely affect the organization's ability to prepare contract proposals in a manner that is consistent with applicable government contract laws and regulations.

The DCAA was unable to estimate the total potential cost impact due to the cited deficiencies. However, during Fiscal Year 2001 (April 2000 through March 2001) the Civil Group submitted approximately \$2.7 billion of proposals to the government. Please see the "Executive Summary" of the DCAA report for a listing of the cited deficiencies.

In summary, the DCAA recommended disapproval of the contractor's Civil Group's estimating system. The DCAA also recommended that government procurement and

government contract administration personnel responsible for reviewing and negotiating proposals perform additional cost/price analyses on significant costs in negotiated procurements.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-6510 or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

The TIGTA seal has been removed due to its size.